MINISTRY OF ECONOMY,
LABOUR & SOCIAL POLICY OF POLAND

POLAND 2003

REPORT
FOREIGN TRADE

WARSAW 2003

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ISSN 1643-2703

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LADIES AND GENTLEMEN!

The year 2003 brought about some important changes. It was not only because a new entity was created – the Ministry of Economy, Labour and Social Policy. It combines two former Ministries – Ministry of the Economy and Ministry of Labour and Social Policy and has significantly changed functions. More importantly, the course of the year confirmed the symptoms of economic revival, which have appeared already in the second half of 2002.

Today, at the end of 2003, we are certain that the economic growth in Poland accelerated significantly. The task of the government is to create appropriate conditions and instruments, to make this growth durable and even higher in the following years.

It must also be stressed that this is the last year before accession to the European Union, which would pose new challenges for entrepreneurs. To take up these challenges, it is necessary to improve competitiveness of businesses, develop modern structures based on knowledge and innovation and to develop entrepreneurship.

The government has undertaken numerous measures to facilitate the operations of businesses and to improve their financial situation. This includes a reduction of tax rates for 2004 and a draft law on freedom of business, passed to the Parliament. The law introduces measures that facilitate the setting up and operation of businesses.

High level of unemployment remains a very serious problem for Poland. An effective measure to reduce it will be high economic growth – which should occur over the coming two years, supported with appropriate structural policy. I believe that these plans are implemented, which would lead to an increased demand for labour, and as a result , to unemployment curb.

The Reports should allow You to get a closer view on the economic and social issues of Poland during the past two years.

Jerzy Hausner

Deputy Prime Minister
Minister of Economy, Labour and Social Policy

Warsaw, October 2003

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Synthesis

1. The year 2002 brought a revival of turnover in foreign trade in comparison to 2001. This revival was visible both in terms of payments (according to data of the National Bank of Poland), and in terms of commodities (on the basis of customs statistics, SAD documents). Export rose by 8.9%, to the total level of 32,945 million USD (according to NBP data), and, according to the SAD statistics, by 13.6%, to the level of 41,010 million USD. Import rose, respectively, by 3,2% to the total level of 43,297 million USD, and by 9,6%, to the level of 55,113 million USD .
2. Trade turnover with foreign countries increased 3.2 times during the transformation period. Despite this, the opening up of Poland's economy to the world was not large, compared to countries on similar development level – especially in terms of export. The current level of Poland's exports to its GDP amounts to 21.7%, whereas in the Czech Republic this ratio amounts to 55%, in Hungary to 65% and in Slovenia to almost 100%. The per capita value of Polish export in 2002 amounted to 1,062 USD, while in Slovakia to about 2,700 USD; in Hungary to almost 3,400 USD; in the Czech Republic to above 3,700 USD; and in Slovenia to about 5,200 USD.
3. The higher volume of Polish exports was accompanied with increased modernisation of the offered commodities. This is visible in the bigger share of highly processed goods, which are more competitive in the international market, while the share of raw materials and semi-finished goods dropped. Foreign direct investments played an important role in this process. Their influence on export was particularly pronounced in the electromechanical industry; and was revealed during the last 5 years, following a period of intense intermediate and investment import.
4. Modernisation of commodities offered by Polish exporters leads not only to an increased volume of export. It also makes export less sensitive to the unfavourable conditions in international markets. Entities with the participation of foreign capital have easier access to distribution channels and financing sources. This makes them much less sensitive to negative external conditions, especially in terms of credits and currency exchange rates.

5. Commodity exchange with the European Union stands out very positively from the general trends and results of Polish foreign trade. The countries of the European Union constitute the main outlet market for Polish export (about 69% of total export), and at the same time the supply market for the Polish economy (about 61% of the total import), especially in terms of investment and intermediate goods. This market has also a very significant influence on foreign trade deficit (41.3% of the total deficit is attributed to countries of the European Union). At the same time, the deficit of turnover with these countries (measured as the ratio of deficit to export) amounted to -20.8% in 2002. This was one of the most favourable ratios among all groups of markets (in Poland's total foreign commodity exchange, this ratio reached 34%).
6. In 2002 export to countries of the former USSR – mainly to Russia – was very important for a reduction of foreign trade deficit and for the overall growth of export. The dynamics of export growth to all these countries is higher by about 50% (and reached 118.8%), and export to Russia is twice higher (125.8%) than the overall export dynamics (113.6%). This allows Poland to gradually recover from the losses in export to these markets that it suffered due to the economic and financial crisis in that region (in 1998).
7. An analysis of the main streams of import during the economic transformation period shows that the main volume was attributed to investment and intermediate import, which amounted to four-fifths of total import. Modernisation of the economy, and its increasing competitiveness, depend closely on the influx of foreign direct investment, and the related significant investment and intermediate import. The dynamic increase of these two import streams should be viewed not only in the context of deficit growth, but also as an objective condition of economic development and export growth. These conditions are confirmed by the significant reduction of deficit in the years 2000–2001 (about 3.1 billion USD), and its relatively weaker reduction in 2002, due to a revival of export.
8. The main conditions influencing foreign trade in 2002 include:
   - stagnation of the domestic demand, forcing higher export,
   - clearer weakness of the Polish zloty (PLN) in relation to the euro – as the dominant currency in trade settlements (about 70%), while the euro grew stronger in relation to the US dollar: the resulting calculation of foreign trade exchange, converted from euro to the weaker US dollar, translated into a statistical increase of turnover dynamics by about 4 percentage points.

These factors influencing export reduced the negative outcomes of unfavourable economic situation in the main export markets, especially in Germany.

9. In 2002, the labour effectiveness in industry sector rose by 7.5%. This caused a reduction of the effective unit labour cost in the industry sector by 5.6%. These changes translated into higher competitiveness of industrial production, and made the Polish export offer more attractive. A decrease of the effective unit labour cost increased also the positive influence that the foreign exchange rate fluctuations (namely, weaker zloty in relation to the euro) had on the level of Polish export.
10. When analysing the development of situation in Poland's foreign trade, and defining its influence on the national economy, one must also take into account the relation between the foreign trade balance and domestic employment level. It is estimated that the current volume of export creates jobs for about 1 to 1.2 million people.
11. ***During the 1st half of 2003, foreign trade turnover – both in terms of payments (data of the National Bank of Poland) and in terms of commodities (SAD information) – reached record-high levels, unseen since the beginning of economic transformation.*** In terms of payments, proceeds from export rose by almost 30%, compared to the same period of 2002, to the level of 19.2 billion USD; and expenses for import rose by 21%, amounting to 23.9 billion USD. Measured in terms of commodities, export rose by almost 27%, reaching the total level of 23.9 billion USD; whereas import increased by 20%, to 30.7 billion USD.

    Trade results denominated in euro were not so positive. In terms of payments, proceeds from export rose only by 5.2%, and expenses for import dropped by 1.5%.

    From the commodities perspective, these values amounted to, respectively: growth by 3.4% and decline by 2.9%.
12. During the 1st half of 2003, an increase of turnover was recorded in all commodities groups, both in terms of export and import, compared to the same period of the previous year.

    From among ten groups (the aggregate goods sections), only in four groups of commodities the growth rate of export was higher than the growth rate of import, ***which led to an improved balance of exchange:***
    - by 406 million USD in the group of agricultural and food products;
    - by 341 million USD in the group of miscellaneous products, mainly furniture,

– by 251 million USD in the group of wood and paper industry products,
– by 116 million USD in the group of ceramic products.

However, the total value of this positive change was not enough to offset the worse exchange results in the remaining groups.

1. General evaluation of the situation in foreign trade

1.1. Results of the commodities exchange in 2002 compared to the results of previous years

During the last 11 years[1)], Poland experienced a relatively dynamic growth of foreign trade turnover. In 2002, turnover from the payment perspective (according to data of the NBP) reached a level that was three times higher than in 1991. Proceeds from export rose by 158%, while expenses for import by 241%. The exchange measured from the commodities perspective (on the basis of statistical data of the Central Statistical Office – CSO) rose 3.2 times – slightly higher than from the payments perspective. A similar disproportion was found in commodities turnover: export rose by 175%, while import by 255%.

A visible progress occurred in the development of trade exchange, due to the economy's opening up to the external world. Despite this, we must keep in mind that the relatively high dynamics of turnover increase was in a large part attributed to a very low reference basis – the low level of trade turnover in the beginning of the 1990's. The data presented in table 1 show that the process of opening up of the Polish economy was accompanied by an even faster process of the rising and growth of trade exchange deficit.

The status of relative balance between the meagre export and similar import – to a large extent artificially supported on the central level – occurred in the early stages of the transformation process. During later years, it was subjected to harsh verification by the long-term confrontation between domestic and foreign production, both on the external and domestic market. This confrontation was especially difficult, as it took place during the same period when the economic cooperation shifted its direction – from markets of comparable development level

1) For the purposes of evaluating the results of foreign trade during the transformation period, the year 1991 is considered as the reference year, due to incomplete statistical data for 1990.

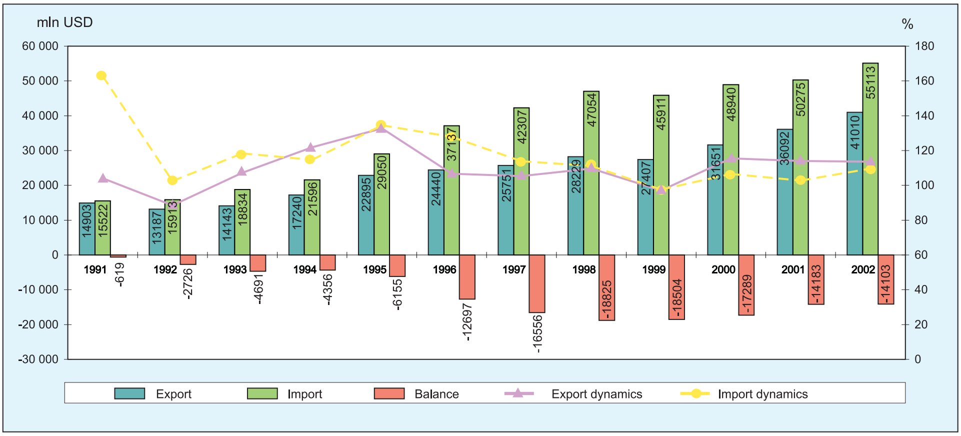
(mainly within the former Council for Mutual Economic Aid) to the markets of highly developed countries.

Table 1. Foreign trade turnover in 1991–2002

Year	NBP data					Customs data				
	in USD million			Dynamics in % previous year = 100		in USD million			Dynamics in % previous year = 100	
	Export	Import	Balance	Export	Import	Export	Import	Balance	Export	Import
1991	12,760	12,709	51	117.5	146.9	14,903	15,522	-619	104.1	162.9
1992	13,997	13,485	512	109.7	106.1	13,187	15,913	-2,726	88.5	102.5
1993	13,598	16,080	-2,482	97.1	119.2	14,143	18,834	-4,691	107.2	118.4
1994	17,024	17,919	-895	125.2	111.4	17,240	21,596	-4,356	121.9	114.7
1995	22,878	24,790	-1,912	135.0	138.3	22,895	29,050	-6,155	132.8	134.5
1996	24,453	32,632	-8,179	106.8	131.6	24,440	37,137	-12,697	106.7	127.8
1997	27,229	38,549	-11,320	111.3	118.1	25,751	42,307	-16,556	105.4	113.9
1998	30,122	43,842	-13,720	110.6	113.7	28,229	47,054	-18,825	109.6	111.2
1999	26,347	40,727	-14,380	87.5	92.9	27,407	45,911	-18,504	97.1	97.6
2000	28,256	41,424	-13,168	107.2	101.7	31,651	48,940	-17,289	115.5	106.6
2001	30,275	41,950	-11,675	107.1	101.3	36,092	50,275	-14,183	114.0	102.7
2002	32,945	43,297	-10,352	108.9	103.2	41,010	55,113	-14,103	113.6	109.6

Source: data of the National Bank of Poland and the Central Statistical Office.

Chart 1. Foreign trade turnover in 1991–2002 according to SAD documents (customs data)



Source: data of the Foreign Trade Data Centre (CIHZ).

The syndrome of growing imbalance in foreign trade, present during almost the whole past decade, was due to several reasons. These included:

– low competitiveness of domestic production and the need for its quick modernisation, which caused an increase in the investment and intermediate import;
– inability of the domestic industry to satisfy the growing consumer demand, which, coupled with limited market protection, generated high consumer demand for foreign goods; and
– strengthening of the Polish zloty with relation to the basket of main currencies.

Since 1999, a significant reduction of trade deficit has been registered (see: table No. 2). This was not due to a particularly strong export increase, but rather to a significant weakening of import – caused by a slower economic growth and smaller internal demand (especially in investment).

A slight improvement in the economic situation in 2002 resulted in a quicker growth of import, which in turn caused a smaller degree of deficit reduction. As the Polish export depends, to a large extent, on imported components, it can be estimated that the economic growth will again bring an increase of the foreign trade deficit.

Table 2. The current accounts balance in 1991–2002, and after the first half of 2003

Description	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	1st half 2003
GDP in USD billion	76.4*)	84.3*)	85.9*)	92.6*)	126.3	142.9	143.1	157.7	155.0	163.9	183.0	189.2	99.0
GDP growth in % (in fixed prices in PLN, previous year =100)	93.0	102.6	103.8	105.2	107.0	106.1	106.8	104.8	104.1	104.0	101.0	101.3	103.0
Export proceeds in USD billion	12.8	14.0	13.6	17.0	22.9	24.4	27.2	30.1	26.3	28.3	30.3	33.0	23.0
Export proceeds/ GDP in %	16.7	16.6	15.8	18.4	18.1	17.1	19.0	19.1	17.0	17.2	16.5	17.4	23.2
Balance of commodities exchange in USD billion	0.05	0.5	-2.5	-0.9	-1.8	-8.2	-11.3	-13.7	-14.4	-13.2	-11.7	-10.4	-4.7
Balance of commodities exchange/ GDP in %	0.07	0.6	-2.9	-1.0	-1.4	-5.7	-7.9	-8.7	-9.3	-8.0	-6.4	-5.5	-4.7
Current accounts balance in USD billion	-1.4	-0.3	-2.9	0.7	5.5	-1.4	-4.3	-6.9	-11.6	-9.9	-7.2	-6.7	-2.7
Current accounts balance/ GDP in %	-1.8	-0.4	-3.4	0.8	4.3	-0.9	-3.0	-4.4	-7.5	-6.1	-3.9	-3.5	-2.7

*) own calculations.

Source: data of the Foreign Trade Data Centre (CIHZ).

1.2. Conditions influencing commodities exchange in 2002 and after 1st half of 2003

Of the basic conditions which exerted a significant influence on the results of foreign trade exchange in 2002, the key role was played by external factors (whose nature was, predominantly, objective) and internal factors (usually determined by the priorities of economic policy).

Among the external factors, the most important ones were:

- ***a prolonged period of weaker global economic situation, particularly in the countries of the European Union.***

  In 2002, the growth rate of the global economy accelerated only slightly (according to the International Monetary Fund, from 2.3% in 2001 to about 3% in 2002). This was due mainly to slower economic growth in Japan (according to the OECD, increase of GDP only at 0.4% in 2001, and 0.3% in 2002), an in Western Europe. In the United States, the growth of GDP reached 2.4%.

  The growth rate of GDP in the countries of the European Union was reduced from 1.6% in 2001 to about 1% in 2002. Within the countries of the Euro Zone, the GDP growth dropped to 0.9% (data of the Eurostat). This was reflected in a slower growth of Poland's export to the markets of the European Union. The growth rate of the export volume to the countries of the European Union dropped from 10.8% in 2001 to 7.8% in 2002 (on the basis of data of the CSO).

  The most important element was a reduction of the economic growth in Germany – which is Poland's main trade partner – where the GDP dropped from 3% in 2000 (which was the record level since Germany's unification) to about 0.6% in 2001 and to about 0.2% in 2002.

  The worsening of situation in Germany caused Polish export to this market to slow down (in 2002, an increase of 6.7% compared to 12.4% a year earlier). This can be explained by very close ties between the economies of Poland and Germany (the analyses conducted by the Economic Committee of the United Nations Organisation, and by the Foreign Trade Research Institute (IKC HZ) confirm a very strong relation between import demand in Germany, and the volume of Polish export to this market). The demand in the German market, following a very significant weakening of growth in 2001 (to the level of 3.7%), was reduced in 2002. Import in Germany, measured in US dollars, remained on a level close to 2001 (a growth of barely 0.4%), but measured in euro it dropped to 3.8%.

The report of the Federation of German Chambers of Industry and Commerce (Deutscher Industrie- und Handelskammertag, DIHK) published in the spring stated that no improvement in the overall economic situation was recorded. German entrepreneurs did not have such a negative assessment of the situation since the 1993 recession. This can have a significant, negative influence on the level of Polish export to Germany in 2003.

It is also necessary to note that changes in the export volume, which constitute a reaction to the fluctuating economic situation abroad, can be delayed even by several quarters, due to natural reasons. This is particularly true in such cases as the deliveries of rail-less vehicles and their parts (growth of 546 million USD, or by 16.7%, to the level of about 3.8 billion USD in 2002).

Despite the hopes for a significant economic revival, the 1st half of 2003 did not bring a visible breakthrough in the crisis trends in the global economy. According to the preliminary data published by the Eurostat, after the period of very limited growth in 2002, during the 1st half of 2003 GDP grew by about 2.2% in the USA and by about 102.5% in Japan (compared to the same period of 2002). Clearly less positive results were found in the Euro Zone and in the whole European Union, where the GDP rose, respectively, by barely 0.7% and 0.8% during the 1st half of 2003, compared to the same period of the previous year. The prolonged period of poor economic situation in the countries of the European Union is particularly disturbing, as this group accounts for a significant share in Polish foreign trade (almost 70% in export, and 61% in import). The changes of import demand in the European Union have a crucial importance for the level of Polish export.

- ***weakening of the US dollar in relation to the euro***

In 2002, the position of the Polish zloty (PLN) in relation to these two currencies was completely reversed, compared to previous years. The zloty maintained a relatively strong position in relation to the US dollar, but weakened systematically in relation to the euro (by 6.5% in the 2nd quarter, compared to the same period of the previous year, by 8.7% in the 3rd quarter and by 9.4% in the 4th quarter of 2002). Until the 2nd quarter of 2002, the dollar was the currency with the strongest position. However, during the subsequent quarters of 2002, the euro systematically gained strength in relation to the dollar (by 5% in the 2nd quarter, 10.5% in the 3rd quarter, and by 12% in the 4th quarter of 2002).

The weakening of PLN in relation to the euro in 2002 translated into an increased profitability of export. At the same time, the strengthening of the euro towards the dollar gave an additional positive boost. This effect, resulting from the conversion of the turnover value (mainly export) from the much stronger euro to the relatively weaker dollar, translated into a significantly higher dynamics of export value growth, measured in dollars. It is estimated that, in statistical terms, this had a significant influence on the increase in turnover ratios (by about 4% in export, and by about 3.5% in import).

After the 1st half of 2003, such a significant change in currency relations (further appreciation of the euro by 23%) influences the volume of foreign currency exchange, measured in dollars, both indirectly (by affecting the economic situation in the European Union, and particularly in Germany) and directly (as a result of the conversion of the turnover value). The weakening of the dollar towards the euro, when over 60% of foreign trade transactions are settled in dollars, is reflected in the statistical increase of the dynamics of commodities exchange, measured in dollars (by over 14 percentage points in export, and by 13.5% in import). The dynamics of turnover, expressed in euro, was much smaller than its dollar value: in export the growth reached 3.4%, as opposed to 26.9%; and in import, turnover dropped by 3%, compared to growth by 20.4%.

- ***changes in global prices***

Aside from the factors listed above, the changes in global prices of the basic raw materials had also a very important and direct influence on the level of the deficit, in terms of its value.

The year 2002 was the second subsequent year of a decline in petroleum oil prices, from its record-high level of 192 USD per ton in 2000 to 162 USD per ton in 2002. The decline in 2002, compared to the previous year, was very small (by 1.8%). A slight increase in the import volume of petroleum oil (a total of 0.4 million tons, of which by 0.6 million tons from Russia) compensated for the decline of prices in 2002. As a result, the value of import of petroleum oil, as well as a deficit on this commodity, remained on the level close to the 2001 results (of this, an increase by 63 million USD in import from Russia). The result of the decline in petroleum oil prices was heightened by smaller import of natural gas, due to its lower prices, which dropped from 183 USD/1000 m^3 in 2001 to 161 USD/1000 m^3 in 2002.

The changes of prices were reflected also in the sales results of coal and copper. In the case of coal, the average price dropped to about 36 USD/ton, that is by almost 10%. At the same time export went down by about 0.4 million tons, reaching the level of about 22.6 million tons. This led to an overall reduction of the value of coal exports. As a result, the balance of exchange worsened, by 133 million USD, reaching 707 million USD.

A similar situation appeared in the global copper market. The average price of this raw material in 2002 dropped to about 170 USD per ton, that is by 1.7%. As the volume of copper export rose during the same period by 8.6%, the value of Polish copper export rose by 6.8% – by about 50 million USD.

During the 1st half of 2003 the prices of petroleum oil rose significantly compared to the 1st half of 2002 (from 148 USD/ton to 193 USD/ton). This was due at first to the threat of war with Iraq, and later to the actual war. At the same time, the import volume of petroleum oil increased (by 0.2 million tons, mainly from Russia). This caused an increase in the value of crude oil import, and an increase of deficit on this commodity by over 400 million USD. The results of trade in natural gas were also worse than a year earlier. As a result of an increase in the average prices of gas – from 154 USD/1000 m^3 to 189 USD/1000 m^3 – and its higher deliveries, the negative trade balance deepened by over 219 million USD. The changes of prices were reflected also in the sales results of coal and copper. In the case of coal, the average price dropped to less than 35 USD/ton. At the same time export went down to less than 11 million tons, which led to an overall reduction of the value of coal exports. As a result, during the 1st half of 2003, the positive trade balance on this commodity shrunk by almost 60 million USD, compared to the same period of the previous year.

The situation in copper trade was completely reverse. An increase of the average price of copper (by 5%, to 178 USD/ton), coupled with a slightly higher volume of its exports, caused the positive trade balance of this commodity to become higher by 36 million USD.

Among the internal factors, the most important ones were:

- ***weak internal demand in 2002, and slight revival after the 1st half of 2003***

After a serious reduction of the growth of domestic demand in 1999–2000 (from 6.4% in 1998 to 2.8% in 2000) and its further decline (by 1.7%) in 2001, in 2002 the domestic demand rose by barely 0.8%. Thus, the sales opportunities in the domestic market were seriously limited, and forced the producers to maintain their export orientation. In the case of small and medium-sized enterprises, this orientation quite often determined their survival. The growth rate of import in 2002 was almost three times higher than in 2001 – it rose from 2.7% to 9.6%. During the same period, the PLN weakened slightly in relation to the euro.

During the 1st half of 2003, the domestic demand was gradually restored. It is estimated that private consumption rose by about 1.7%. As the disposable revenues and savings went down, this can lead to a slow-down of the import volume in the subsequent months (during the 1st quarter of 2003, an increase of 6.1%, which is 2.5 percentage points more than during the same period of the previous year; and at the same time 2 percentage points lower than during the 4th quarter of 2002). As the gross outlays for fixed assets continued to drop since 2001, they did not stimulate in an effective manner a growth of investment and intermediate import. The preliminary estimates regarding the 1st half of 2003 allow to foresee a change in this tendency.

- ***weakening of PLN in relation to the euro***

The depreciation of PLN in relation to the euro had a measurable, positive influence on the profitability of export. The transaction prices in export – the parameter which has a direct influence on the profitability of export sales – rose in 2002 by 4.4% in nominal terms, and by 2.5% in effective terms. However, as the domestic Producer Price Index rose during that period by less than 1%, the conditions were still relatively favourable.

The gross profitability of all exporting enterprises rose from 1.5% after three quarters of 2001 to 2.1% during the same period of 2002. During the same period, net profitability rose from 0.4% to 0.9%, respectively. The results achieved by specialised exporters were even better. Their gross profitability rose during that period from 1% to 3.6%; and net profitability from 0.2% to 2.3%.

After the 1st half of 2003, the tendency of depreciation of PLN in relation to the two main currencies, which arose in 2002, remained in place. The decline of the nominal value of the Polish currency amounted to more than 3.2% and 9.1%. A direct influence on foreign trade results – and consequently, also on the current accounts deficit – was exerted by the effective exchange rate of

PLN, deflated by the unit labour costs (in case of export)[2)], or by the Consumer Price Index (in import)[3)]. In 2002, the position of PLN got relatively weaker: in export, by more than 9% in 2002 and by more than 18% after the 1st half of 2003; and in import, respectively, by less than 3% and by 8.6%. This changed the international competitive position of Poland (Polish goods are primarily price-competitive in the global markets).

- ***reduced demand for bank credits, and their limited supply***

The year 2002 was another year of difficult conditions for the financing of enterprises' operations, including their export activity. The savings, which determine the scope of credit activity in the banking system, decreased, compared to 2001, by about 2 percentage points (from 18% of GDP in 2001 to 16% of GDP in 2002). The demand for credits, as well as their supply in 2002, were additionally determined by the relatively high competitiveness of the Treasury Bonds and other government securities in comparison to the profitability of investments financed with credits (with respect to enterprises), and to the credit profitability (in case of banks[4)]). Another condition which determined the scope of enterprises' interest in bank credits was their uncertainty regarding the possibility of achieving satisfactory profits during the period of a seriously reduced demand. It is estimated that this factor had a stronger influence than relatively high interest rates.

- ***relatively expensive bank credits***

The level of effective interest rates was still relatively high (over 5%), despite 14 subsequent reductions over a two-year period. It is a direct reason for high costs of credits; and seriously diminishes the interest of enterprises – including exporters – in new business undertakings, and particularly in long-term and costly pro-development activities.

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2) According to the Foreign Trade Research Institute, in 1993–2002 the effective exchange rate PLN/USD, corrected with the unit labour costs, accounted for about 1/3 of the increase of the export volume. However, since 1996 the role of effective exchange rate has diminished, and was replaced by the influence of external demand.

3) The exchange rate ratio in import influences the dynamics of the import volume with a delay of about 1 month, and its effect is not larger than 20%.

4) Banks which are burdened with threatened and lost credits were less willing to grant credits to businesses, as they were uncertain about the future financial condition of borrowers, and their ability to repay the obligations.

In a situation of general shortage of enterprises' own funds, the high cost of credits was a real obstacle for modernisation of production, and for increasing competitiveness of Polish products in the international market.

Under such circumstances, the natural tendency to contract credits abroad (mainly by entities with foreign shareholders) is becoming increasingly pronounced. It leads to a dynamic growth of the enterprises' foreign payment obligations (which increased from the level of 25 billion USD in 1999 to 35 billion USD to 2000, and to more than 40 billion USD in 2002).

These obligations will probably be offset, to a large extent, with future export revenues. The growing difference between the flow of commodities abroad, and the payment revenues on export (8.1 billion USD in 2002) seems to confirm these expectations.

- **influence of foreign investments on the volume of deficit**

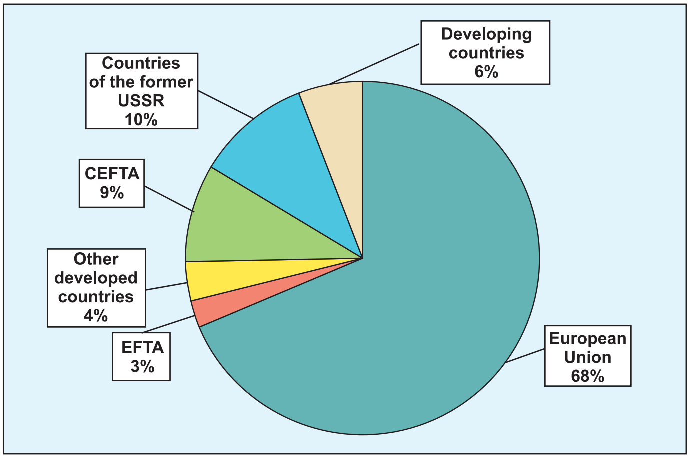
  A radical increase of the foreign trade deficit in mid-1990's and the resulting (delayed by one year) worse current accounts balance were attributed mainly to an increased influx of foreign direct investment. (According to the Polish Information and Foreign Investment Agency – PAIIZ, – for Foreign Investment, the cumulative value of FDI for the years 1995–2002 exceeded 65 billion USD). The first phase of this process – the years 1996–1999 – brought a very high increase of import – not only of intermediate and investment nature, needed to modernise production – but also a dynamic growth of consumer import (effected, to a large extent, by the foreign investors, who wanted to quickly capitalise on the benefits of an absorptive market). Over the course of the next two years, import slowed down significantly. At the same time, foreign investors operating in Polish market intensified their export activities.

2. Changes in the geographical structure of foreign trade

For a number of years, the volume of Poland's trade exchange and the size of its trade deficit was determined by the turnover achieved in exchange with countries of the European Union, and with developing countries.

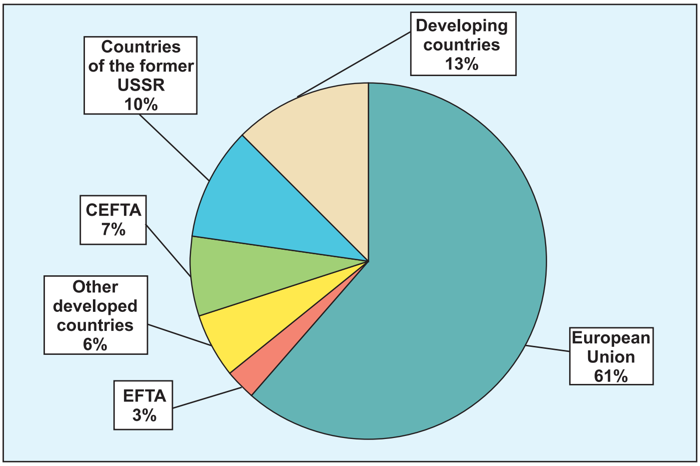
In the case of the countries of the European Union this ratio, measured as the deficit to export, was reduced significantly from -61% in 1998 to -20.6% in 2002. In the case of trade with developing countries, the deficit ratio still remains on a very high level, despite a significant reduction from -236% in 1998 to 188% in 2002.

Chart 2. Geographical structure of export per main groups in 2002



Source: data of the Foreign Trade Data Centre (CIHZ).

Chart. 3. Geographical structure of import per groups in 2002



Source: data of the Foreign Trade Data Centre (CIHZ).

The countries of the ***European Union*** constitute the main direction for the Polish export (about 69% of total export), and at the same time the chief supply market for the Polish economy (about 61% of the total import), especially in terms of investment goods and semi-finished products. This includes mainly the products of electromechanical industry (43% of import from the EU), and products of the chemical industry (21% of import from the EU). This market has also a very significant influence on the foreign trade deficit (41.3% of the total deficit is attributed to countries of the European Union). Contrary to previous years, when the negative trade balance in exchange with the countries of the European Union was significantly reduced, in 2002 this process was stopped. This was due to the fact that export to these countries remained on the level of 2001, while import dynamics increased three-fold. The main influence was exerted by worse results of trade exchange with ***Germany*** and ***Italy***. This negative occurrence was offset by a significant reduction of deficit in exchange with: ***Great Britain, Sweden*** and ***France***, and by an increase of trade surplus with ***Denmark***. The scope of exchange with these five trade partners was much smaller than with Germany. The total value of Polish export to these five countries in 2002 amounted to about 9.3 billion USD, that is 33.1% of total export to the European Union. It was lower by about 4 billion USD than the value of import to Germany. Import, amounting to a total of about 13 billion USD, constituted 38.3% of total import from the countries of the European Union. It exceeded the value of import from Germany by barely 0.4 billion USD. As a result, trade deficit with these five countries amounted to about 3,7 billion USD, that is 63.3% of the total deficit in trade with the European Union.

The scope of turnover in the 1st half of 2003, compared to the same period of the previous year, was comparable. Turnover achieved with countries of the European Union amounted to 35.5 billion USD. Of this, export reached 16.7 billion USD and rose by about 3.5 billion USD (by 27%), whereas import reached 18.8 billion USD – an increase by 3 billion USD (19%). As a result, the negative trade balance with countries of the EU was reduced to its lowest-ever level of 2.2 billion USD.

During the 1st half of 2003, in the commercial exchange with Germany, the trade deficit which amounted to 30 million USD a year earlier, turned into a trade surplus of 318 million USD (lower by 109 million USD than the trade surplus achieved in 1st half of 2001). This was due to much more intense revival in export than in import. Compared to 2002 export rose by 27% to the level of ca 7.8 billion USD and on the import side by 21% and amounted to 7.5. billion USD.

Commercial exchange with ***countries of the former USSR***, after the breakdown in 1998–1999, has been slowly recovering over the past three years.

Export to the countries of the former USSR, as a result of the economic and financial crisis in Russia, dropped from the level of about 4.5 billion USD in 1997 to more than 2.5 billion USD in 1999. Since 2000, it has been gradually and systematically restored. ***In 2002, the value of sales to the countries of the former***

USSR was lower only by 180 million USD than its record-high level of 1997. During the period 1998–2002, import also grew systematically, from 3 billion USD to more than 5.7 billion USD in 2002. A particularly high increase was recorded in 2000. This was a result of higher prices of imported energy sources, which are the main element of Polish import from the countries of the former USSR. As a result of these changes, the positive trade balance of 794 million USD, achieved in 1997, turned in 2000 into a record-high deficit, close to 2.8 billion USD. The deficit was reduced in the next years, to the level of about 1.3 billion USD in 2002.

This worsening of situation in commercial exchange with these markets was due to the accumulation of negative export and import conditions in the exchange with ***Russia***. Polish export suffered a breakdown as a result of a decline in import demand from Russia. This decline in turn resulted from a breakdown of internal demand, due to a dramatic decline in the population's effective income, and to the loss of financial liquidity by enterprises. In the area of import demand, these factors were further aggravated, on one hand, by a shock caused by devaluation of the ruble, and on the other, by the need to cut foreign currency spend. From July to December 1998, the ruble's value in relation to the US dollar was reduced three times. Such a significant increase of the dollar's power with relation to the domestic currency created a very serious obstacle for import. The influence of the devaluation shock on import was further deepened by restrictions in the area of custom duties, taxes, rationing of foreign currencies and by administrative restrictions. Such actions were justified by the need to protect the balance of payments. One of the solutions was introduction of stricter custom tariffs regulations, intended to protect domestic producers.

The amount and frequency of the newly introduced customs fees, and their geographical direction, created a priority for products imported from the CIS, especially for the agricultural and food products. The tax solutions (VAT and excise tax) were oriented to increase budget revenues, especially on import. The sharper regulations regarding foreign currency turnover – such as increased ratio of obligatory sale of currency revenues on export (from 50% to 75%), limited the possibility of advance payment for purchased goods, and the generally more severe control of payments for imports – seriously reduced the scope of import freedom for businesses, as well as of the financing of import by banks. Tighter budget discipline caused a significant reduction in the financing of import from central resources. At the same time, sharper banking supervision significantly reduced the stream of external financing for business entities. The decrease of consumer import was accompanied by equally radical reduction of investment import. The value of import from Russia rose rapidly in 2000, due to an increase in petroleum and natural gas prices. From that year onwards, import has been going down systematically. In 2001, it was due mainly to the reduction in prices of petroleum oil, which more than compensated the increase in natural gas prices. In 2002, prices of both of these commodities dropped, while purchases of petroleum increased, and import of gas decreased. As a result, the trade deficit with Russia, despite a significant reduction, still exceeded 3 billion USD (that is, 21.3% of the total trade deficit). The opportunities for progress in balancing the results of trade exchange with Russia are seriously limited over the coming years, due to the structure of import from that country. They depend almost solely on the growth of Polish export.

During the 1st half of 2003, export to the countries of the former Soviet Union rose, compared to the same period of the previous year, by 24%, reaching the level of 2.4 billion USD. Import from these countries (after a decline in the 1st half of 2002) rose by 33%, to the record level 3.3 billion USD. As a result, trade deficit with this group of markets deepened to almost 1 billion USD.

During the 1st half of 2003, in the trade exchange with Russia export remained quite lively, although its growth rate was not so dynamic as during the three previous parallel periods. Export rose by only 53 million USD, compared to the 1st half of 2002, to the level of 0.7 billion USD. Import, after the reduction by 12.4% in the 1st half of 2002, rose to the record level of more than 2.5 billion USD. This increase resulted only from the increase in the prices of petroleum oil and natural gas (by 45 USD/ton and by 31 USD/m^3, respectively), while their import volumes remained on the same level. As a result, the deficit deepened and reached more than 1.8 billion USD. As usual, the deficit in trade with the CIS countries is the highest with all Poland's trading partners; and constitutes 27% of the global negative balance in Poland's commodities trade.

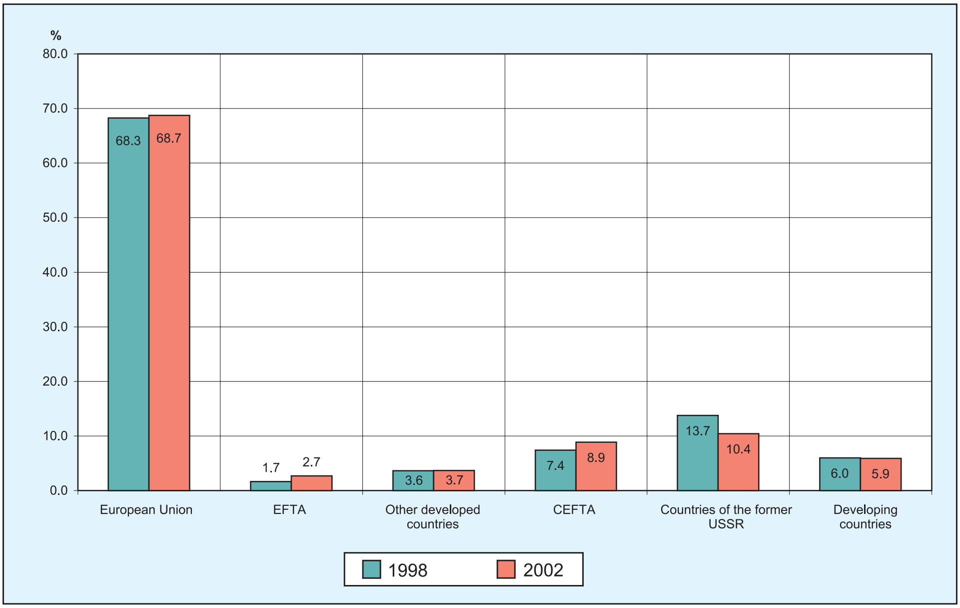
Commercial exchange with the ***Baltic states*** (Lithuania, Latvia and Estonia) is much better than with the countries of the CIS.

Export to these countries is growing systematically, measured both for the whole group and separately for each country. Just before the Russian crisis, Polish export to these countries constituted less than $^1/_4$ of export to Russia. During recent years, the Baltics became a comparable outlet market for Polish goods. Despite a slight reduction in the export growth rate in 2002, sales rose to the level of over 1.3 billion USD – similar to the value of sales to Russia. Import was relatively low (almost 5 times smaller than export). In 2002, it was smaller by 24% than a year earlier. As a result, the surplus in trade with the Baltics has increased.

Commercial exchange with ***Lithuania*** had the largest influence on the turnover achieved with all Baltic states. In 2002, products sold to this country accounted for 70% of total export to the Baltics. Import from Lithuania was reduced to the level of 191 million USD. As a result, the trade surplus achieved with Lithuania rose from 479 million USD in 2001 to 742 million USD in 2002.

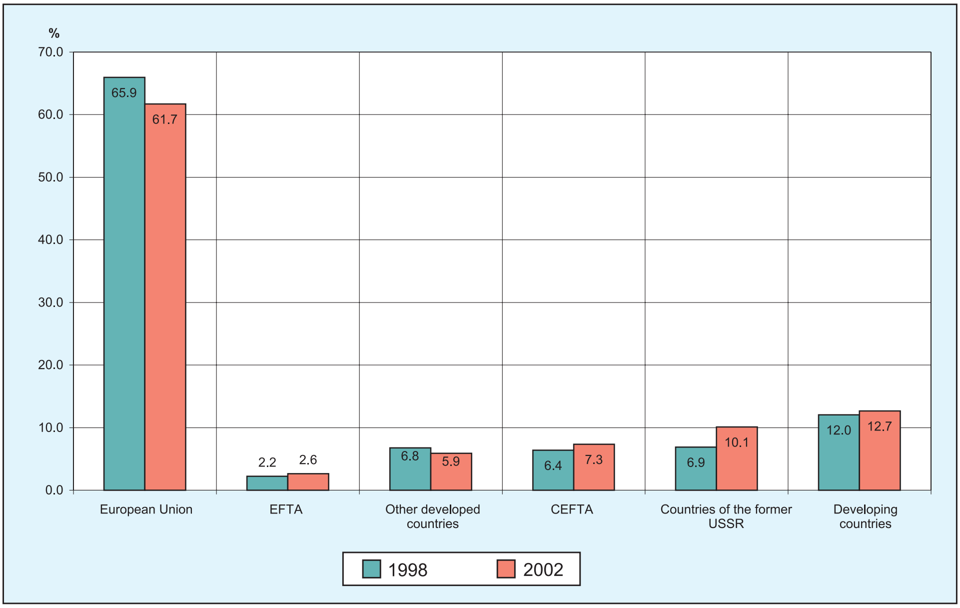
During the 1st half of 2003, commercial exchange with the Baltic republics improved further, compared to the same period of the previous year. Export to these countries was five times higher (reaching a level close to 0.8 billion USD) than import from these countries (175 million USD). This led to a further increase of the trade surplus (by 150 million USD, to the total level of 617 million USD for the 1st half of 2003).

Chart 4. Geographical structure of export in 1998 and 2002 per the main groups



Source: data of the Foreign Trade Data Centre (CIHZ).

Chart 5. Geographical structure of import in 1998–2002, per the main groups



Source: data of the Foreign Trade Data Centre (CIHZ).

In 2002, the trade exchange with countries associated in the ***CEFTA*** was favourable. As the volume of turnover with these countries grew, the deficit was reduced. In 2002, the turnover rose by 789 million USD, compared to the previous year. Of this, export rose by 493 million USD and import by 296 million USD. As a result, the deficit was reduced from the level of 595 million USD in 2001 to 398 million USD in 2002. The ***Czech Republic*** played the most important role in the reduction of the negative trade balance with the whole group. This country accounted for 80% of the reduction of deficit (that is, 158 million USD).

During the 1st half of 2003, export to the CEFTA countries reached 2.2 billion USD, and rose by 35% – faster than total exports, and 1.5 times higher than export from CEFTA countries. As a result, trade deficit was further reduced, to the level of 128 million USD.

In 2002, the situation in trade with ***developing countries*** became clearly worse. This area has shown, for several years, the largest imbalance in commercial exchange. The many years of disintegration in trade with developing countries prove, on one hand, the lack of adequate protection of the Polish market against excessive import; and on the other, on the incapable system for export support. In

2002, the deficit of exchange reached its lowest-ever level, close to 4.6 billion USD (that is, 32.6% of the total trade deficit); and turned out to be higher than the 1998 level.

In 2002, over half of the deficit was attributed to commercial exchange with ***China*** and ***Korea.*** In the case of Korea, in the years 1998–2002 the deficit was seriously reduced, by 730 million USD (from 1.3 billion USD in 1998) – mainly due to withdrawal of Korean investments from the Polish market. In the case of China, the high imbalance becomes increasingly pronounced every year, with no clear perspectives for improvement of the situation.

During the 1st half of 2003, the situation in trade exchange with developing countries was still negative. Export to this group of countries rose, and its growth exceeded the dynamics of import. However, due to a large difference between the volume of import, and the scope of export to these markets, the exchange deficit increased again (by 451 million USD). It reached a level unseen during the previous years, totaling 2,476 million USD. The share of developing countries in the total Polish export, as well as their involvement in import, remained on the level similar to the one achieved in 2002. Regarding the exchange deficit with developing countries, $^3/_4$ of this deficit is attributed to trade with China (-1,1177 million USD); South Korea (-276 million USD), Turkey (243 million USD) and Taiwan (-206 million USD).

3. Commodity structure of foreign trade, and its changes in 2002

For the purposes of a synthetic presentation of the changes in the commodity structure in foreign trade, the 21 unified commodity nomenclature PCN sections were aggregated into 10 basic, mainly uniform groups of commodities.

In 1998–2002 positive changes occurred in the commodity structure of the Polish export. They were reflected by the growing share of highly processed goods, which are more competitive in the international market, while the share of raw materials and semi-finished goods dropped.

This process is reflected in the higher share of the products of electromechanical industry in export – by 9.2 percentage points. This group of products includes internal combustion engines, means of transport (cars and trucks, ships), parts and accessories for vehicles, TV receivers, electric cables. A significant proportion of these goods is produced and exported by firms with foreign shareholding, whose investments contributed to modernisation of the Polish economy and increased its opportunities to export goods to the demanding markets of developed countries. A significant modernisation of the commodities offered by Polish exporters also makes export less sensitive to unfavourable conditions in the international markets; and to fluctuations in foreign exchange rates.

The changes occurring in the commodity structure of foreign trade in 2001–2002 were assessed from the perspective of reducing the foreign trade deficit.

In 2001–2002, Polish export rose by 4.9 billion USD, whereas import increased by 4.8 billion USD. The trade deficit, amounting to 14.2 billion USD was slightly reduced (by about 80 million USD). On the other hand, deficit of turnover, measured as the ratio of the deficit to export, was significantly improved, from -39.9% in 2001 to -34.4% in 2002.

The 2002 dynamics of export was comparable to the dynamics achieved during the previous year. Meanwhile, dynamics of import accelerated three-fold, compared to 2001.

These changes in turnover dynamics were the main reason for slowing down the speed at which trade deficit was reduced in 2002.

Growth of export in 2002 was due mainly to higher sales in the following groups of commodities:

- ***In the group of electromechanical products*** (sections XVI–XVIII), the growth of export in 2002, compared to 2001, amounted to 2,469 million USD, which constituted 50.2% of the total export growth, while the trade deficit on this group was reduced by 76 million USD.

  The growth of export of the electromechanical industry products in 1998–2002 reached 7.5 billion USD, while the deficit was reduced by almost 4.7 billion USD. The growth of export of products of the electromechanical industry during that period was accompanied by a systematic growth of this commodity group's share in total export. The increased export share of this commodity group means that the Polish export offer was modernised, and its competitiveness improved.

  The groups of commodities, which had the largest influence on improving the balance of trade in this group in 2002, included:

- *internal combustion engines with spontaneous ignition* (item 8408). Export rose by 225 million USD, while import by 9 million USD. This caused an increase of trade surplus on this group of commodities by 216 million USD;
- *spare parts and accessories for motor vehicles* (item 8708). Export rose by 368 million USD, while import by 67 million USD. This translated into a balance improved by 301 million USD;
- *other vessels* (item 8906). The increase of the value of their export by 332 million USD, while their import stabilised (rose by 22 million USD) and caused an improvement of trade balance, by 310 million USD;
- *television sets* (item 8528). Export rose by 182 million USD, while import remained on the same level as a year earlier (increase of 7 million USD). This had a positive influence on the positive accounts balance, increasing it by 175 million USD;
- *electric cables and conductors* (item 8544). Their export rose by 145 million USD, while import rose slightly, by 24 million USD. This allowed to improve the trade surplus by 121 million USD.

The results of these positive changes were party offset due to:

- an increase in the value of imported cars (item 8703) by 533 million USD, which, coupled with a decline in their export by 21 million USD, translated into a worse balance of car trade, by as much as 554 million USD. The crisis in the car market of Western Europe, which is both the main outlet market and a supply market for the Polish motor industry, caused problems with export sales and, on the other hand, increased import – due to the fact that production from the countries of the European Union was being pushed to external markets, including the Polish one;
- higher import of ships and other floating equipment (item 8901) by 598 milion USD, which, despite the increase of their export by 47 million USD, led to a worse trade balance, by 551 million USD. The increase in the import of ships is a statistical result of the larger portfolio of renovation and modernisation works, performed in recent period (from 2001) by Polish shipyards, aside from construction of new vessels.

The largest volume of trade in this commodity group in 2002 was achieved with the countries of the European Union (75% in export, 67% in import).

- ***In the group of mineral products*** (section V), the year 2002 brought a slight reduction of the deficit (by 70 million USD), of which 40 million USD (that is, 56,3%) of the value was attributed to mineral fuels, which constitute the largest part of turnover in this commodity group. The largest buyer of Polish mineral products in 2002 were the countries of the European Union (70%) and of the CEFTA (18%), whereas the largest supplier were the countries of the former USSR (80%).
- ***In the group of miscellaneous products*** (sections XIX–XXI), furniture accounted for 85% of the total volume of trade (sub-section 94). An improvement in the surplus in furniture trade reached 392 million USD, compared to 2001, due to an increase in their export by 398 million USD, while import remained on the same level as last year (increase of 6 million USD).

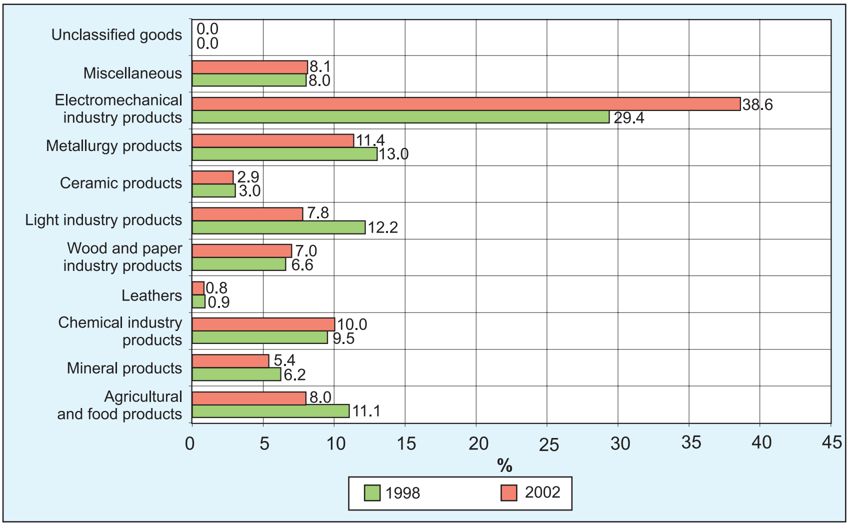
  Export of furniture in 1998–2002 rose by almost one half, and the positive trade balance rose by a little less than 1 billion USD. The main trading partner in terms of these products were countries of the European Union, responsible for 75% of export of Polish furniture, and for 61% of furniture import into Poland.

  An important share in the import of this commodity group (mainly toys and Christmas decorations) is controlled by developing countries – their share accounts for 25% of Polish import of miscellaneous goods.
- ***The group of wood and paper industry products*** (sections IX–X), the year 2002 saw an increase in turnover (export by 440 million USD, and import by 250 million USD). The trade balance doubled, compared to the previous year. Export of this commodity group rose by almost a half during 1998–2002, and the deficit was turned into a positive trade balance. A better situation in trade of these commodities was significantly influenced by foreign investments made in the paper sector. The main trading partner in terms of these products were the countries of the European Union, which absorbed 65% of exports of the Polish wood and paper industry; and provided 76% of import of these products into Poland. Aside from the countries of the European Union, these products were also sold to countries of the former USSR, which absorbed 18% of Polish export of this commodity group; and the CEFTA (10%).
- ***In the group of agricultural and food products*** (sections I–IV), the year 2002 brought a reduction of the deficit by 85 million USD. This was due to a much higher growth of export than of import, compared to 2001.

  During the last four years, the deficit in trade of agricultural and food products was systematically reduced. The total decrease amounted to 452 million USD.

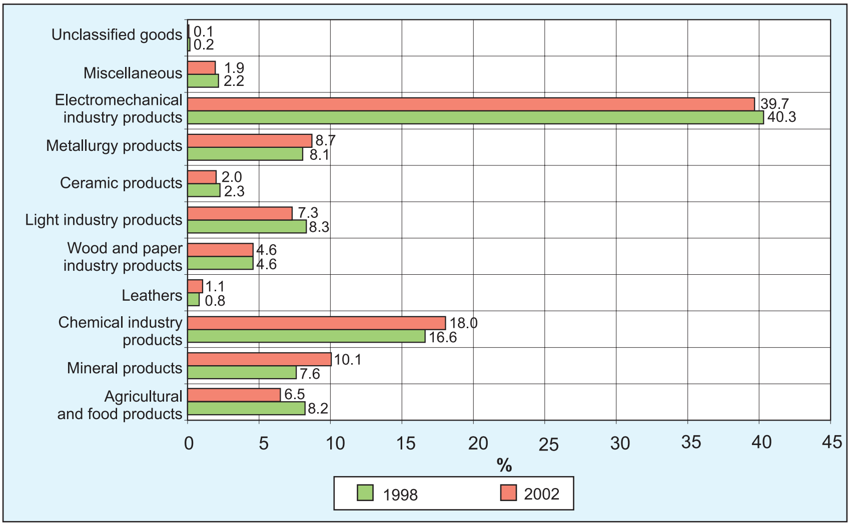
  The largest buyer of Polish agricultural and food products in 2002 were the countries of the European Union (49% of the total export), countries of the former USSR (20%) and CEFTA (12%). The largest supplier of agricultural and food products were the countries of the EU (53%) and developing countries (25%).

Chart 6. Changes in the commodity structure of export in 1998 and 2002



Source: data of the Foreign Trade Data Centre (CIHZ).

Chart 7. Changes in the commodity structure of import in 1998–2002



Source: data of the Foreign Trade Data Centre (CIHZ).

Contrary to the commodities groups already discussed, where the situation improved during 2002, the groups of commodities listed below have undergone a worsening of the situation, and the deficit in trade with these commodities has increased.

- ***The group of chemical products*** (sections VI–VII).

  In 2002, turnover in this group of commodities increased. Export rose by over 0.6 billion USD, and import by almost 1.1 million USD, compared to the results of 2001, which led to a further deepening of the trade deficit.

  From the total deficit in trade in chemicals (5.8 billion USD in 2002) 69% fell on chemical products, of which 45% accounted for the deficit in pharmaceutical products (1.9 billion USD).

  In 1998, the deficit in trade in chemical products amounted to 27.3% of the total foreign trade deficit. In 2002, it rose to 41.3%. The trade deficit in this group of commodities is alarmingly high. Moreover, the volume of deficit keeps growing systematically. The main suppliers of chemical products to the Polish market are the countries of the European Union (74% of import) and CEFTA (9%).

- ***The group of metallurgy products*** (section XV). In 2002, the deficit of this group of products doubled in comparison to the 2001 result, and amounted to 127 million USD. Export in 2002 rose by 440 million USD (by 10.4%), whereas import rose by 497 million USD (by 11%). The largest increase of import was registered in the group of steel and cast iron products (by over 200 million USD). The largest volume of trade in this commodity group in 2002 was achieved with the countries of the European Union (65% in export, 69% in import); and with CEFTA countries (14% in export, 13% in import).

  Since 1998, export of metallurgy products rose by 989 million USD, while import rose by 1,005 million USD. The negative trade balance remained on a level similar to 1998 (increase by 16 million USD).

- **The group of light industry products** (sections XI and XII) in 2002 deepened its trade deficit by 297 million USD, compared to 2001. This was due to an increase of import by 330 million USD, while export stabilised on the level similar to the one achieved last year (increase by 33 million USD). The largest growth of the deficit (by 240 million USD) traditionally has been recorded in fabrics and textile industry products (section XI). The largest volume of trade in this commodity group was achieved with the countries of the European Union (80% in export, 61% in import). The countries of the former USSR were also a large buyer of light industry products (12%). Aside from the countries of the European Union, Poland purchased products of light industry from developing countries, which account for 29% of the Polish import of these commodities.

In 1998–2002, export of products of Polish light industry dropped (by 249 million USD), while at the same time their import increased (by 123 million USD). The results of trade exchange in this group of commodities are due to the following factors:

– sharp competition in terms of prices and quality of textile products, mainly imported from Asia;
– the switch of improvement processing, commissioned by entities from the countries of the European Union, to other cheaper subcontractors (as a result of labor costs increase).

This caused not only a collapse of the domestic textile industry, but also turned this group of commodities into a generator of deficit. The deficit on textile products is approaching the value of 1 billion USD.

During the 1st half of 2003, an increase of turnover was recorded in all commodities groups, both in terms of export and import, compared to the same period of the previous year. From among the ten groups (the aggregate goods sections), only in four groups of commodities the growth rate of export was higher than the growth rate of import, which led to an improved balance of exchange:

– by 406 million USD in the group of agricultural and food products;
– by 341 million USD in the group of miscellaneous products, mainly furniture,
– by 251 million USD in the group of wood and paper industry products,
– by 116 million USD in the group of ceramic products.

However, the total value of this positive change was not enough to offset the worse exchange results in the remaining groups.

4. The structure of import distribution

Contrary to the situation seen during previous years, the changes in the streams of import in 2002 show a renewed increase of intermediate and investment import. At the same time, consumer import still achieves a significant growth (see table no. 19). Compared to 2001, total import of the first two groups – directly tied to production and development – rose in 2002 by 3.5 billion USD, or by 9%. During the same time, consumer import increased by almost 1.4 billion USD – by 13%.

Table 3. Import distribution directions in 1998–2002

No	Type of import	1998		1999		2000		2001		2002		Dynamics 1998 = 100
		million USD	%	million USD	%	million USD	%	million USD	%	million USD	%	
	Total	**47,054**	**100.0**	**45,911**	**100.0**	**48,940**	**100.0**	**50,278**	**100.0**	**55,113**	**100.0**	**117.1**
I.	***Intermediate***	***29,879***	***63.5***	***29,567***	***64.4***	***30,245***	***61.8***	***30,572***	***60.8***	***32,668***	***59.3***	***109.3***
1.	Petroleum oil and natural gas	2,132	4.5	2,456	5.3	4,481	9.2	4,216	8.4	4,075	7.4	191.1
2.	Results of the price changes of petroleum oil and gas			+364		+2,097		+1,868		+1,673		
3.	Import intermediate, less the results of the price changes			29,203	63.6	28,148	57.5	28,704	57.1	30,995	56.2	
II.	***Investment***	***7,905***	***16.8***	***6,933***	***15.1***	***9,152***	***18.7***	***9,174***	***18.2***	***10,569***	***19.2***	***133.7***
1.	**Total: intermediate and investment (3 + II)**	**37,784**	**80.3**	**36,136**	**78.7**	**37,300**	**80.5**	**37,878**	**75.3**	**41,564**	**75.4**	**110.0**
III.	***Consumer***	***9,176***	***19.5***	***9,320***	***20.3***	***9,494***	***19.4***	***10,462***	***20.8***	***11,828***	***21.5***	***128.9***
1.	Unidentified	94	0.2	92	0.2	49	0.1	101	0.2	48	0.1	51.1

Source: data of the Foreign Trade Research Institute (CIHZ).

The assessment of the changes in import distribution, occurring over the last 4 years, and their comparison to the total import dynamics (increase by 9.6%), leads to the conclusions that:

- ***intermediate import*** increased during that period by 9.3% (from 29,789 million USD in 1998 to 32,668 million USD in 2002) – almost two times slower than total import. When we take into account stabilisation of the value of petroleum oil import, and a significant decline in the value of natural gas import (by the total amount of 1.7 billion USD) – which resulted from the global decrease in the prices of these commodities – it turns out that the total level of import rose, in fact, by 1.1 billion USD compared to the 1998 level (from about 29.9 billion USD to 31 billion USD, or by 3.7%). Detailed data regarding the volume of import, and the prices of petroleum oil and gas in the years 1998–2002 are presented in table 4.

Table 4. Volume and import prices of petroleum oil and natural gas in 1998–2002

Description	1998		1999		2000		2001		2002	
	Amount	Price	Amount	Price	Amount	Price	Amount	Price	Amount	Price
Petroleum oil*)	15,367	89.56	15,364	119.40	18,039	192.00	17,558	164.90	17,942	162.0
Natural gas**)	6,897	109.5	6,651	95.1	7,010	145.0	7,217	182.9	7,265	160.7

*) petroleum oil – amount in millions tons, price in USD/ton
**) natural gas – amount in billion m^3, price in USD/m^3

Source: data of the Foreign Trade Research Institute (CIHZ).

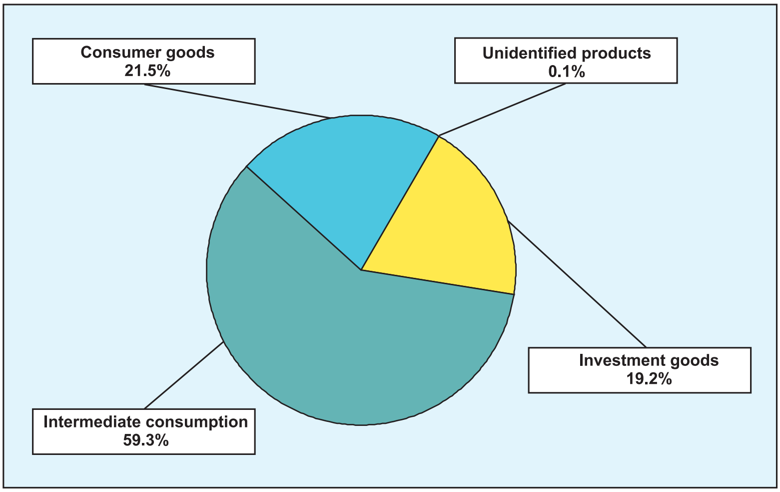
The intermediate import, despite its absolute decline in 1998–2001, and increases in 2002 and during the 1st half of 2003, still constituted about three-fifths of total import. Together with investment import, it amounted to about four-fifths of total import.

This proves that the Polish economy is highly dependent on the import of goods and services. Under such circumstances, the appreciation trend of the Polish currency, present up to the 2nd quarter of 2001, could have a significant positive influence on the costs and profitability of Polish export. This applies particularly to that part of export which heavily relies on a significant import consumption of parts and components for production – most sectors of the electromechanical industry and the motor vehicle industry. This factor probably offset part of the negative influence that the PLN appreciation exerted on the profitability of export; and explains the dynamics of its growth over the recent years. In 2002, PLN maintained its strong position with relation to the US dollar, while its nominal value, compared to euro, dropped by 5%. However, an increase in intermediate import was registered despite an increase of these factors. This could have been due to the changing relations between the euro and the US dollar, which alleviated the negative results that the weakening of PLN in relation to the euro had on the profitability of import.

- ***investment import rose*** by 33.7% during 1998–2002. Its relatively high level during the last two years, registered despite a clear decline of investment outlays (by 9.5% in 2001 and by 10% in 2002) can be explained by:
  - the influx of foreign investment (in 2001, their value reached 7.1 billion USD; and in 2002, 6.1 billion USD, according to the Polish Agency Information and Foreign Investment Agency – PAIIZ),
  - the growth of the value of repairs, performed by Polish shipyards for foreign ships (over 1.3 billion USD in 2002), whose value is statistically recorded under investment import and next, following the repairs or modernisation, it is reported as export, thus statistically increasing the level of turnover.

When assessing the changes in the level of investment import, one must also take into account a certain imperfection of the system classifying streams of import according to their designation, and especially the lack of clear criteria that would allow to separate investment import from consumer import. A significant part of investment goods, such as cars or computers, may be treated as investment import – while in reality it is used by the consumption segment.

Chart 8. Structure of import in 2002 per distribution



Source: data of the Foreign Trade Data Centre (CIHZ).

- ***consumer import*** has been rising systematically over the last years, and in 2002 reached a level close to 12 billion USD. This was by 29% more than in 1998 (6.5 billion USD after the 1st half of 2003). The structure of consumer import is dominated by industrial consumer products (61.2%). These goods, together with cars, constituted over 80% of total import.

  A relatively high increase of consumer import, compared to the other two import streams, seem to prove that the restrictive monetary policy of recent years appears to have results completely contrary to the intended ones. This policy was meant, primarily, to limit the consumer import.

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